

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 TRSE-00 FRB-01 COME-00
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AMEMBASSY TAIPEI
AMEMBASSY TOKYO

UNCLAS HONG KONG 3455

PASS TREASURY, FEDERAL RESERVE AND COMMERCE

E.O. 11652; N/A
TAGS: EFIN, HK
SUBJECT: HONG KONG GOVERNMENT ENDS FREEZE ON LICENSING OF BANKS

1. SUMMARY: HONG KONG FINANCIAL SECRETARY HADDON-CAVE
ANNOUNCED MARCH 15 THAT GOVERNMENT HAS DECIDED END 12-YEAR
MORATORIUM ON ISSUANCE OF NEW BANK LICENSES. NEW
POLICY WILL PERMIT FOREIGN BANKS WITH ASSEST OVER
US\$3 BILLION TO OPEN ONE FULLY LICENSED BRANCH OFFICE IN
HONG KONG, PROVIDED APPLICANT'S COUNTRY OF INCORPORATION
OFFERS RECIPORCITY. END SUMMARY.

2. FINANCIAL SECRETARY PHILIP HADDON-CAVE SPOKE TO THE
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HONG KONG LEGISLATIVE COUNCIL ON MARCH 15 AND ANNOUNCED NEW
POLICIES WITH RESPECT TO BANK LICENSING AND REGULATION.
MOST IMPORTANT IS DECISION TO RE-OPEN LICENSING OF BANK
BRANCHES. AFTER BANK LIQUIDITY CRISIS OF 1965, LICENSING
WAS FROZEN. THERE WERE THEN 73 LICENSED BANKS. ONLY
ONE EXCEPTIION HAS BEEN GRANTED SINCE THAT TIME: GRANT
OF A LICENSE IN 1973 TO BARCLAYS, A BRITISH BANK, WHICH

BROUGHT TOTAL TO 74.

3. UNDER THE NEW POLICY, APPLICATIONS BY FOREIGN BANKS FOR LICENSE UNDER THE BANKING ORDINANCE WILL BE GIVEN "FAVORABLE CONSIDERATION", PROVIDED THREE CRITERIA ARE MET: A) APPLICANT BANKS MUST BE "INCORPORATED IN COUNTRIES WHOSE MOMENTARY AUTHORITIES EXERCISE EFFECTIVE SUPERVISION, AND HAVE WHERE NECESSARY APPROVED THE ESTABLISHMENT OF A BRANCH IN HONG KONG"; B) APPLICANT BANKS' "TOTAL ASSETS, NET OF CONTRA ITEMS...." MUST EXCEED THE EQUIVALENT OF US\$3,000 MILLION; AND; C) "SOME FORM OF RECIPROCITY" MUST BE AVAILABLE IN THE APPLICANT'S COUNTRY OF INCORPORATION TO HONG KONG BANKS.

4. THE LICENSING AUTHORITY "RESERVES THE RIGHT NOT TO GRANT A LICENSE WHEN TO DO SO WOULD BE AGAINST HONG KONG'S INTEREST, NOT WITHSTANDING THAT AN APPLICANT MEETS THE THREE CRITERIA".

5. FOREIGN BANKS ONLY ARE TO BE CONSIDERED. THE QUESTION OF GRANTING NEW BANK LICENSES TO LOCAL INTERESTS IS DEFERRED.

6. LICENSES GRANTED UNDER THE NEW POLICY "WILL BE SUBJECT TO THE CONDITION THAT SUCCESSFUL APPLICANTS MAY ONLY CONDUCT BUSINESS FROM ONE OFFICE IN HONG KONG." "ONE OFFICE" REFERS TO A FULL BRANCH AND DOESN'T PRECLUDE UNCLASSIFIED

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OPERATIONS BY THE SAME PARENT COMPANY UNDER THE DEPOSIT-TAKING COMPANIES ORDINANCE OR OTHER LEGISLATION.

7. OF THE THREE CRITERIA CITED IN PARA 3 ABOVE, ONLY THE SECOND AND THIRD ARE EXPECTED TO BE SERIOUSLY RESTRICTIVE. THE TOTAL ASSETS CRITERION WILL EXCLUDE SOME CONSORTIUM BANKS WHICH MIGHT HAVE SOUGHT LICENSES. THE RECIPROCITY PROVISION IS PRESUMABLY DIRECTED AT SWITZERLAND, CANADA, AUSTRALIA, AND POSSIBLY OTHER COUNTRIES CLOSED TO FOREIGN BANKS. HOWEVER THE PHRASE "SOME FORM OF RECIPROCITY" ALLOWS FLEXIBILITY IN INTERPRETATION.

IN INTERPRETATION.

8 HADDON-CAVE ALSO ANNOUNCED CERTAIN CHANGES IN THE REGULATION OF COMPANIES LICENSED UNDER THE DEPOSIT-TAKING COMPANIES ORDINANCE OF APRIL 1976. UNTIL NOW, THE 200-ODD COMPANIES SO LICENSED, TO DO A RESTRICTED BANKING BUSINESS, HAVE NOT BEEN SUBJECT TO CLOSE SUPERVISION OR TO LIQUIDITY REQUIREMENTS. THESE COMPANIES ARE NOT PERMITTED TO TAKE SMALL DEPOSITS, HENCE IT WAS CONSIDERED THAT THE PUBLIC AT LARGE DID NOT NEED TO BE PROTECTED AS CLOSELY

AS IN THE CASE OF FULLY-LICENSED BANKS. NOW, HOWEVER,
"THE GOVERNMENT HAS DECIDED THAT THE SYSTEM OF PRUDENTIAL
SUPERVISION SHOULD BE EXTENDED TO DEPOSIT-TAKING COMPANIES".
THEY WILL BE REQUIRED TO FURNISH MONTHLY REPORTS TO THE
COMMISSIONER OF BANKING AND WILL BE SUBJECT TO PERIODIC
INSPECTION. IN ADDITION, "SOME FORM OF LIQUIDITY REQUIREMENT"
WILL BE IMPOSED, BUT THE PRECISE NATURE OF IT HAS
NOT YET BEEN DECIDED.

9. COMMENT: THE GOVERNMENT'S ACTION, OR THE
EXACT FORM OF IT, COMES AS A SURPRISE, ALTHOUGH THE SUBJECT
HAS BEEN UNDER ACTIVE DISCUSSION FOR MANY MONTHS. IT HAD
BEEN THOUGHT THAT THE GOVERNMENT MIGHT LIBERALIZE THE
DEPOSIT-TAKING COMPANIES ORDINANCE TO PERMIT BRANCHES OF
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FOREIGN BANKS TO OPERATE UNDER THAT REGIME. IN FACT SUCH
PERMISSION HAD ALREADY BEEN GRANTED, UNDER A QUIRK OF THE
LAW, TO SIX BANKING COMPANIES WHO HAPPENED NOT TO HAVE THE
WORD "BANK" IN THEIR NAME. OPENING OF LICENSES UNDER THE BANKING
ORDINANCE WILL UNDOUBTEDLY ATTRACT A NUMBER OF
APPLICANTS. ESTIMATES RANGE FROM 25 TO 40. MANY WILL
NOT CONTEMPLATE ACTIVE ENTRY IN THE RETAIL BANKING FIELD,
WHERE THEY WILL BE HANDICAPPED BY THE LIMITATION TO ONE
OFFICE. BY OPERATING FROM AN OFFICE NOT AT STREET LEVEL
AND BY IMPOSING MINIMUM SIZES OF THEIR OWN OR DEPOSITS,
THEY MAY CONFINE TO BULK OF THEIR BUSINESS TO THE
WHOLESALE LEVEL.
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